CONGRESSIONAL BUDGET OFFICE
COST ESTIMATE

March 15, 1999

H.R. 707
Disaster Mitigation and Cost Reduction Act of 1999

As passed by the House of Representatives on March 4, 1999

SUMMARY

H.R. 707 would amend the Robert T. Stafford Disaster Relief and Emergency Assistance Act to authorize a predisaster mitigation program and make changes to the existing disaster relief program.

The legislation would authorize the appropriation of $105 million over fiscal years 1999 and 2000 for a predisaster mitigation program. (Public Law 105-276 appropriated $25 million to the Federal Emergency Management Agency (FEMA) for this purpose in fiscal year 1999.) Other provisions in H.R. 707 would also result in changes in discretionary spending, assuming appropriation of the necessary amounts. In total, CBO estimates that implementing H.R. 707 would increase discretionary outlays by a total of $2 billion over the 1999-2004 period. Most of the estimated increase in outlays—$1.3 billion of the five-year total—would result from provisions that would accelerate spending from FEMA's disaster relief fund, but would not change total spending over the long term.

If the authorized funding for predisaster mitigation efforts is provided and used judiciously, enactment of this legislation could lead to savings to the federal government by reducing the need for future disaster relief funds. CBO cannot estimate the timing or magnitude of such savings because we cannot predict either the frequency or location of major natural disasters. Over the next 10 years, savings could exceed the $80 million that the legislation would authorize for predisaster mitigation efforts, although we expect that any such savings would be small over the next five years.

H.R. 707 also would affect direct spending; therefore, pay-as-you-go procedures would apply. CBO estimates that the net annual increase in direct spending would, on average, be less than $500,000.

The legislation contains no intergovernmental or private-sector mandates as defined in the Unfunded Mandates Reform Act (UMRA) and would significantly benefit the budgets of state, local, and tribal governments.

DESCRIPTION OF THE LEGISLATION'S MAJOR PROVISIONS

Title I would establish a program to provide financial assistance to state and local governments for predisaster mitigation activities. It also would require the President to transmit a report to the Congress that would evaluate efforts to implement the predisaster hazard mitigation programs and recommend a process for transferring greater authority over the program to states. In addition, this title would remove a yearly cap of $50,000 per state on the grants that FEMA makes for improving and maintaining disaster assistance plans and would increase the maximum federal contribution for mitigation costs from 15 percent to 20 percent.

Title II would combine any disaster relief expenses incurred by states but not chargeable to a specific project into a single category called management costs. It would direct the President to establish standard rates for reimbursing states for such costs.

Title II also would establish new requirements that certain private nonprofit facilities (PNPs) would have to meet in order to receive funds for repair and replacement of damaged facilities. In order to receive moneys from the disaster relief fund, PNPs would have to be ineligible for a loan from the Small Business Administration (SBA), or have obtained the maximum possible loan amount from the SBA. The title would require that the President exempt from this requirement PNPs that provide "critical services," such as utilities, communications, and emergency medical care. (The definition of critical services would be left to the President.)

In addition, the legislation would reduce the federal government's share of costs for repairing damaged facilities from 90 percent to 75 percent, but would allow the President the flexibility to vary the contribution between 50 percent and 90 percent if doing so would be more cost-effective. Title II would also allow the President to use the estimated cost of repairing or replacing a facility, rather than the actual cost, to determine the level of assistance to provide. H.R. 707 would establish an expert panel to develop procedures for estimating the cost of repairing a facility.

The legislation would combine the Temporary Housing Assistance (THA) and Individual and Family Grant (IFG) programs into one program, and would eliminate the community disaster loan program, a program that assists any local government that has suffered a substantial loss of tax revenues as a result of a major disaster. Finally, H.R. 707 would add several reporting requirements for FEMA and the General Accounting Office (GAO).

ESTIMATED COST TO THE FEDERAL GOVERNMENT

CBO estimates that implementing H.R. 707 would result in additional discretionary outlays of $2 billion over the 1999-2004 period. The estimated increase in outlays includes $0.7 billion in additional costs and $1.3 billion from the faster spending of future appropriations. Because the faster spending of disaster relief funds would not affect long-term costs, a corresponding net decrease in outlays would occur over the 2005-2009 period. The legislation also would affect direct spending, but CBO estimates that the annual net increase in such spending would, on average, be less than $500,000.

The estimated budgetary impact of most of the provisions in H.R. 707 is shown in the following table. The table does not reflect some potential savings and costs from provisions that may affect discretionary spending but for which CBO cannot estimate the likely effects. In particular, we cannot estimate the potential savings in the costs of future disaster relief from the increased spending on predisaster mitigation activities that would be authorized by H.R. 707. While such savings could be significant in the long run, we expect that any savings would be small over the next five years. In addition, CBO cannot estimate the effects of provisions that would establish standardized rates for reimbursing management costs and that would reduce the amount of general assistance that FEMA can provide state and local governments in lieu of providing the federal share of costs to repair or replace a facility. The costs of this legislation fall within budget function 450 (community and regional development).

BASIS OF ESTIMATE

For the purposes of this estimate, CBO assumes that H.R. 707 will be enacted by the end of this fiscal year and that the amounts authorized and estimated to be necessary will be appropriated near the start of each fiscal year.

	By Fiscal Year, in Millions of Dollars					
	1999	2000	2001	2002	2002	2004
SPENDING SUBJECT TO APPROPRIATION [a]						
Spending for Disaster Relief Under Current Law						
Budget Authority/Estimated Authorization Level [b]	1,214	1,240	1,266	1,295	1,323	1,351
Estimated Outlays	3,250	2,587	2,349	2,216	1,870	1,692
Proposed Changes						
Specified Authorizations for Predisaster Mitigation						
Authorization Level	0	80	0	0	0	0
Estimated Outlays	0	32	32	16	0	0
Estimated Authorizations						
Authorization Level	0	372	94	77	76	75
Estimated Outlays	0	-8	171	201	136	75
Estimated Change in Outlays from Baseline						
Budget Authority						
Authorization Level	0	0	0	0	0	0
Estimated Outlays	0	0	0	518	465	345
Spending for Disaster Relief Under H.R. 707						
Budget Authority/Estimated Authorization Level	1,214	1,692	1,360	1,372	1,399	1,426
Estimated Outlays	3,250	2,611	2,552	2,951	2,471	2,112

a. H.R. 707 also would increase direct spending, but CBO estimates that such changes would be less than $500,000 a year.

b. The 1999 level is the amount appropriated for that year, including $906 million for an emergency supplemental appropriation provided in Public Law 105-277. The remainder of the 1999 level is the regular appropriation of $308 million. The levels shown for 2000 through 2004 are CBO baseline projections assuming increases for anticipated inflation. Alternatively, if the comparison were made to a baseline without discretionary inflation, the authorization level for current law would be $1,214 million each year, and the incremental change in estimated outlays would be $1.87 billion over the five years.

Spending Subject to Appropriation

H.R. 707 contains provisions that would result in both costs and savings to the federal government. CBO estimates costs associated with provisions that would:

- authorize appropriations for predisaster mitigation,
- increase the federal contribution for mitigation costs,
- combine the Individual Family Grant program and the Temporary Housing Assistance program,
- add several new reporting requirements and establish an interagency task force,

- remove a cap on grants for disaster assistance plans,
- provide grants for improved floodplain mapping technologies, and
- establish a pilot program to determine the desirability of state administration of parts of the disaster relief program.

CBO estimates savings associated with provisions that would:

- require certain PNPs to apply to the SBA for disaster loans,
- allow FEMA to use the estimated cost of facility repairs rather than the actual cost, and
- eliminate the community disaster loan program.

CBO cannot estimate the effects of provisions that would:

- achieve long-run savings associated with the predisaster mitigation efforts,
- reduce the amount of general assistance that FEMA can offer state and local governments in lieu of providing its share of the costs to replace or repair a damaged facility, and
- establish standardized rates for reimbursement of management costs.

In addition, CBO estimates that outlays would be accelerated by allowing the President to disburse future appropriations for disaster relief to states before projects are completed, based on the estimated cost rather than on the actual cost.

Provisions with Estimated Costs. H.R. 707 would establish a program for predisaster hazard mitigation and would authorize the appropriation of $25 million for fiscal year 1999 and $80 million for fiscal year 2000 for that program. Because the first $25 million has already been appropriated, the legislation would increase projected spending by the $80 million authorized for 2000.

Other provisions also would increase costs. For example, under current law, FEMA provides grants to states for postdisaster mitigation activities based on the total amount of grants made for each major disaster. H.R. 707 would increase the federal contribution for postdisaster mitigation grants by one-third for all major disasters declared after January 1, 1997. Based on data provided by FEMA, CBO estimates that raising the federal contribution by one-third would result in an additional $247 million in grants to states for disasters that occurred between January 1997 and January 1999, by $61 million for the remainder of fiscal year 1999, and by $92 million a year for each of the next several years. The estimate of additional costs for the remainder of 1999 and for fiscal years 2000 through 2004 assumes that payments under current law would total about $275 million per year. In total, CBO estimates that implementing this provision would require the appropriation of $768 million over the 2000-2004 period. This estimate assumes that the funds to pay for the provision would come from future appropriations and that the outlays from the additional budget authority would occur over several years.

In addition, CBO estimates that combining the Individual Family Grant program and the Temporary Housing Assistance program would result in higher costs of $30 million in fiscal year 2001 and $60 million each year thereafter. Under current law, the federal share for the IFG program is 75 percent of the actual cost incurred. In addition, the federal government contributes an amount equal to 5 percent of total IFG assistance to the states to help cover their share of the administrative costs. Combining the IFG and THA programs would change the federal match to 100 percent and eliminate the federal contribution for administrative costs. Assuming an annual IFG program under current law of slightly more than $200 million, CBO estimates that the net effect of those changes would be to increase annual federal costs by about $60 million. The estimated costs are lower in the first two years because the consolidation would not take place until 18 months after enactment. As part of the consolidation, H.R. 707 would make several changes to the IFG and THA programs, including broadening the type of assistance available to disaster victims and emphasizing the provision of financial assistance over the provision of temporary housing. CBO has no basis for estimating any costs or savings that could result from these other changes.

The legislation would require the President, FEMA, and GAO to prepare several reports, and would require the President to establish an interagency task force to coordinate the implementation of the predisaster mitigation program. Over the 1999-2004 period, CBO estimates that completing the five reports and operating the task force would cost around $2 million.

We also estimate that removing the yearly cap of $50,000 per state on the grants that are made to states for improvement of disaster assistance plans would increase such costs by less than $500,000 a year. Based on information from FEMA, we expect that it would rarely provide more than $50,000 in grants and that the amounts allocated above $50,000 would be small.

Finally, CBO estimates that the provisions that would authorize grants for improved floodplain mapping technologies and establish a pilot program for the devolution of certain responsibilities to the states would not significantly affect annual costs. FEMA currently provides less than $500,000 a year in grants for floodmapping technologies, and CBO expects that agency assistance in this area would not increase significantly.

Provisions with Estimated Savings. CBO estimates that requiring certain PNPs to apply to the SBA for a disaster loan before receiving funds from the disaster relief fund would yield savings of approximately $4 million per year from 2000 through 2004. The savings would result because the government would, in some cases, be providing loans instead of grants to these institutions. CBO estimates that about 115 PNPs would receive SBA loans instead of disaster relief grants, resulting in additional loans totaling about $5 million. The estimated savings is the difference between the reduction in FEMA assistance and SBA's subsidy cost for the new loans.

Based on data and information provided by FEMA, CBO estimates that allowing FEMA to use the estimated cost of repairing or replacing a facility, rather than the actual cost, to provide assistance to state and local governments would result in administrative savings at FEMA of approximately $46 million in fiscal year 2002 and slightly larger amounts each year thereafter. Based on information from FEMA, CBO estimates that, on average, FEMA spends between $250 million and $300 million a year administering the public assistance program. The estimated savings assumes that FEMA would reduce those costs by between 15 percent and 20 percent, primarily by eliminating staff and contractors. FEMA would incur some additional costs for operating the expert panel, estimating the cost of repairs with more precision, and evaluating the accuracy of estimates. Administrative savings would not occur before fiscal year 2002 because H.R. 707 would first require the President to establish an expert panel to develop procedures for estimating the cost of repairing or replacing a facility.

Allowing FEMA to substitute the estimated cost for the actual cost in providing disaster relief to state and local governments could also affect both the amount and the timing of assistance provided. Under the legislation, if the actual costs of repair are greater than 120 percent or less than 80 percent of the estimated costs, FEMA could receive compensation for overpayments or provide compensation for underpayments. The provision would not provide for adjusting assistance if the project's actual costs fall between 80 percent and 120 percent of the estimate. Thus, using an estimated cost could substantially increase or decrease the federal government's cost to repair or replace public facilities if these estimates consistently fall below or above the actual costs of such projects. Because the federal government spends well over a $1 billion each year on such projects, a bias of 10 percent in either direction would change the annual cost of disaster relief by more than $100 million. Because we have no basis for predicting a bias in either direction, CBO cannot estimate the net change in the cost of disaster relief projects from substituting estimates for actual costs. The effects of this provision on the timing of outlays are discussed below.

Finally, based on data provided by FEMA, CBO estimates that eliminating the community disaster loan program would result in savings of approximately $25 million each year from 2000 through 2004.

Provisions with Effects CBO Cannot Estimate. CBO does not have sufficient basis to project potential budgetary effects of some provisions of H.R. 707 because they depend upon the extent and nature of future disasters, the manner in which the Administration would implement certain provisions, and the extent to which states would participate in certain programs.

CBO cannot estimate the potential savings associated with the predisaster mitigation efforts proposed in this legislation. Mitigation efforts could achieve significant savings if damages from future disasters are lessened as a result of the predisaster mitigation measures provided for in the legislation, although we expect that any savings in the first five years would be small.

The legislation also would lower the amount of general assistance that FEMA can provide to state and local governments in lieu of the federal government's share of the cost to repair or replace a facility. Under current law, state and local governments can elect to receive a payment equal to 90 percent of the federal government's expected costs to repair or replace a damaged facility. H.R. 707 would lower that rate to 75 percent. While lowering the contribution rate would decrease disaster relief costs in cases where state and local governments continue to accept general assistance, it also would increase costs in those cases where states and localities choose to forgo the general assistance and seek the federal share of repair costs instead. The two effects could offset one another. Thus, while the provision has the potential for substantial savings, CBO has no basis for estimating the amount of such savings.

Finally, H.R. 707 also would require that the President establish by rule standardized reimbursement rates that should reduce FEMA's administrative burden of compensating states for indirect costs not chargeable to a specific project. Because it is uncertain how these rates would be established, CBO has no basis for estimating the amount of potential savings.

Provision Affecting the Timing of Outlays. H.R. 707 also would substantially increase the rate at which new budget authority is spent from the disaster relief fund. Under current law, funds appropriated for such assistance are often spent years later. But we expect that disbursements would occur more rapidly because of the provision allowing FEMA to provide funds for disaster relief to states and localities based on an estimate of a project's costs rather than on its actual costs. (This provision would not apply to FEMA's current balances of previously appropriated funds.) CBO estimates that this change would result in a net increase in outlays of $1.3 billion over the 1999-2004 period, but that it would have no net effect over the 1999-2009 period. Because H.R. 707 would require the President to convene an expert panel within 18 months of enactment, this estimate assumes that this provision would not affect relief for disasters that occur before fiscal year 2002.

Direct Spending

If enacted, H.R. 707 would increase direct spending by allowing FEMA to retain and spend future proceeds from the sale of temporary housing, such as mobile homes and manufactured housing. Under current law, receipts from the sale of such properties are deposited into the general fund of the Treasury (and thus are not available for spending). According to FEMA and the General Services Administration, which conducts most sales of personal property for the federal government, since liquidating FEMA's entire inventory of temporary housing units in 1996, the federal government has sold only a handful of units. Instead of maintaining an inventory, FEMA now purchases new units to accommodate disaster victims and then either donates the unneeded units to state governments or transfers them to other federal agencies. Under current law, CBO expects that the federal government will continue to sell only a small number of units each year. Consequently, we estimate that allowing FEMA to retain and spend receipts from sales of temporary housing would, on average, increase net direct spending by less than $500,000 a year. Any increase in offsetting receipts relative to current law would be offset by an equivalent increase in new spending.

PAY-AS-YOU-GO CONSIDERATIONS

The Balanced Budget and Emergency Deficit Control Act sets up pay-as-you-go procedures for legislation affecting direct spending or receipts. Pay-as-you-go procedures would apply to H.R. 707 because it would allow FEMA to retain and spend any proceeds from the sale of units of temporary housing. CBO estimates that allowing the agency to retain and spend such receipts would, on average, increase direct spending by less than $500,000 a year.

ESTIMATED IMPACT ON STATE, LOCAL, AND TRIBAL GOVERNMENTS

H.R. 707 contains no intergovernmental mandates as defined in UMRA and would significantly benefit the budgets of state, local, and tribal governments. The legislation would authorize the appropriation of $80 million in 2000 to assist states in predisaster mitigation projects. If the necessary appropriations are provided, it also would increase the funds available to states for postdisaster mitigation activities by an estimated $308 million for major disasters declared between January 1, 1997, and the end of fiscal year 1999, and by about $92 million per year after that. In addition, beginning 18 months after enactment, the 25 percent state match for individual and family grants and certain housing assistance would no longer be required, reducing the burden on states by an estimated $60 million per year. These benefits would be partially offset by the repeal of the community disaster loan program, which would result in a loss of about $25 million in grants to communities each year.

ESTIMATED IMPACT ON THE PRIVATE SECTOR

The legislation would impose no new private-sector mandates as defined in UMRA.

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